

The African Development Bank Group Chief Economist Complex



Market Brief

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1. Market Commentary

1.1 Stock Markets

During the week of 25 – 29 October 2010, African stock markets showed mixed performance. While major commodities rose, the major global stock markets declined on concern that U.S. Federal Reserve stimulus measures will be insufficient to sustain the economic rebound. Among the winning African stock markets, the bourse in Côte d'Ivoire recorded the largest gains of 3.6%, followed by those in Ghana, Uganda, Mauritius, and South Africa which recorded moderate gains of between 1% to 1.9%. The market in Nigeria rebounded slightly by 0.3%. On the other hand, the stock market in Tunisia recorded the largest loss of 4.9% over the week, while the markets in Egypt and Morocco posted moderate losses of 1.6% and 1.0%, respectively. The market in Kenya registered a marginal loss of 0.4%.

Equity Focus

Tunisia: The Tunis Security Exchange Index fell significantly by 4.9% over the week. The index declined almost 10% from its peak at October 1, when the Government announced a new regime to tax the short-term capital gains from the sale of listed shares within one year, which will be effective on January 1, 2011. The tax has been introduced to broaden the tax base while leaving the medium- and long-term stock investments exempt from

capital gains tax.

Nigeria: The NSE All-Share Index rebounded by 0.3 % over the week. The upswing in equity prices reflected in part the mega listing of shares of Dangote Cement Plc which added about 25% to market capitalization. The food and beverage index and insurance index appreciated by 1.6% and 1.3%, respectively. However, the banking sector depreciated by 1.0%.

South Africa: The mining-dominated South African stock market index edged up by 1.0% over the week on higher metal prices. The gainers include MTN which gained 1.6% despite a threat to its revenues after the telephone regulator announced a plan to cut mobile termination rates. Standard Bank, Africa's biggest bank, gained 0.1 % after the bank confirmed its plan to cut more than 2,000 jobs.

1.2 Commodity Markets

Crude Oil (Brent): The price of Brent crude oil rose by 1.3% to USD 81.4 per barrel over the week. The price increase was driven by speculation on the U.S. Federal Reserve's possible quantitative easing move.

Copper: The price of copper fell by 1.6%, halting a fourth monthly gain, as a stronger dollar eroded demand for the industrial metal as an alternative investment.

Mthuli Ncube
m.ncube@afdb.org
+216 7110 2062

Charles Leyeka Lufumpa
c.lufumpa@afdb.org
+216 7110 2175

Leonce Ndikumana
l.ndikumana@afdb.org
+216 7110 2076

Prepared by the following staff: Hee-Sik Kim (h.kim@afdb.org, Tel 216 7110 2689); Chaouch Anouar (a.chaouch@afdb.org, Tel +216 7110 3989). Peter Walkenhorst (p.walkenhorst@afdb.org), Manager, Research Networking Division, supervised the work.

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1.3 Exchange Rates

The majority of African currencies depreciated vis-à-vis the U.S. dollar as the U.S. dollar strengthened on speculation that a quantitative easing plan by the Federal Reserve will be smaller than some traders estimated amid signs the U.S.'s economic recovery is stabilizing. The thirty five African currencies fluctuated within the range of $\pm 1.5\%$, with twenty six currencies depreciating against the US dollar. The largest depreciation of 1.5% was registered by the Botswana Pula, followed by the South African Rand, the CFA Franc, the Seychelles Rupee, and the Sierra Leone Leone which depreciated by between 1.1% and 1.4%. On the other hand, eight African currencies registered gains in value of less than 1.3%, with the Nigerian Naira recording the largest gain vis-à-vis the U.S. dollar.

2. Regional Developments

Africa: The world's biggest container shipping company, Maersk Line, expects volume on African routes to grow faster than shipping in mature markets, although they will underperform other emerging markets such as Brazil and China; Containerized imports, driven by consumer goods and machinery, continue to top exports by three to one. Boxed goods imports to Africa are largely funded by Africans wiring money back from Europe, the Middle East and elsewhere, which has helped sustain demand in the past despite the many armed conflicts.

A new World Bank report, "Rising Global Interest in Farmland," has painted a negative picture of weak land governance and poorly thought-out investments. It notes that many announced deals had not been implemented or performed poorly, that existing rights to supposedly "unused" land were often not considered, and that the schemes were rarely integrated into national development plans. It also stressed that the primary need is not for land expansion but rather improved productivity on existing land, primarily

small-holder farms.

North Africa: Carlyle Group, a U.S. buyout fund, plans to invest about \$300 million in the Middle East and North Africa within the next two years and is looking at opportunities in Egypt and Morocco. It predicted more investment opportunities to come up in the region, based on a sizeable population with high shares of young people and the robust growth forecast at 4.8% in 2011,

3. Countries in Focus

Botswana: The Bank of Botswana announced that it had raised the primary reserve requirement for deposits in the Pula currency at commercial banks to 6.5% from 5.0%, with effect from November 1. It assessed the medium-term outlook for inflation to be positive, but the gauge in the short-term would be above the 3-6% target range due to increases in value added tax and the previous upward adjustment in administered prices.

Ghana: Ghana Commercial Bank reported an increase in net profit of 9.1% with an increase in net interest income of 80.3% for the first nine months of the year. The high profits resulted from the cut in the prime interest rate by a total of 500 basis points to 13.5% and the slow pace at which commercial banks cut their own lending rates. Meanwhile, loans to customers decreased by 18%.

Kenya: Kenya Power and Lighting, the country's sole power transmitter and distributor, plans to raise KES 7-10 billion from its rights issue to spend on its grid. The company is redeeming government preference shares at no cost and converting them into ordinary shares for the rights issue. The company accumulated a KES 15.9 billion loss over five years, which was converted into preference shares of the government in 2003.

“In Malawi, low receipts from tobacco and the lag effect of a major fertilizer subsidy program have caused a dollar shortage this year ...”

“In Seychelles, the International Monetary Fund forecast the economy to grow by more than 6 % this year, thanks to a recovery in tourism and increased foreign direct investments”

Malawi: The IMF has raised its forecast for Malawi's 2010 growth to 7% from 6.3% due to the expected expansion of the mining and services sector. However, low receipts from tobacco, Malawi's main export and foreign exchange earner, and the lag effect of a major fertilizer subsidy program have caused a dollar shortage this year.

Mali: Mali trimmed its 2010 gold production forecast to 50 tonnes from 52 tonnes due to output problems at some of the West African country's mines. Mali, Africa's third largest gold producer behind South Africa and Ghana, produced 53.7 tons of gold in 2009.

Namibia: The Bank of Namibia reported that the year-to-date capital outflows rose to 8.9 billion Namibian dollars from 7.7 billion Namibian dollars last year, causing it concerns.

Nigeria: The Government has announced it will debut its \$500 million Eurobond by the middle of December. The Government hopes it to act as a benchmark for local companies to price their bonds.

Seychelles: The International Monetary Fund forecast Seychelles to grow by more than 6% this year, thanks to a recovery in tourism and increased foreign direct investments. The Indian Ocean island nation was hurt by the global financial crisis severely, forcing it to reschedule its debt.

South Africa: The government had extended guarantees to Eskom, South Africa's state power utility, by 174 billion rand to 350 billion rand to enable it to continue with its power generation programme through 2017. The company is expected to be able to service its debt backed by these guarantees with the energy that it will produce when it completes the new power stations in Medupi and Kusile.

South Africa's trade balance swung back to positive territory in September, with the trade account recording a surplus of 3.6 billion Rand compared with a 4.7 billion Rand deficit in August. Exports jumped by 9.6% in the month, boosted by minerals and

metals, but imports fell 6.9% on lower demand for vehicles, aircraft, machinery and original equipment. To alleviate the pressure on the Rand, the Treasury plans to relax exchange controls further, with individuals being allowed to take more money abroad.

Uganda: The Government announced that year-on-year headline inflation rate slid to 0.1% in October from 0.3% in September mainly due to falling telecommunication charges by major service providers. The annual core inflation rate, which excludes food crops, fuel, electricity and metered water, fell to 2.5% from 4.1% in September.

Zimbabwe: The unity government plans to privatize 10 struggling state firms. The government reported to have recently approved a new program to restructure, commercialize and privatize at least 10 companies and had received interest from foreign investors.

4. Development Partnerships

Zambia - South Africa: The Development Bank of Southern Africa (DBSA) has provided the Zambia Electricity Supply Corporation (Zesco) with a \$105-million loan facility to co-finance the expansion of its 720-MW Kariba North Bank hydropower station by 360-MW.

5. Summary

During the week of 18 – 22 October 2010, African stock market showed mixed performance while the majority of African currencies depreciated. Some public sector entities in Southern Africa increased cooperation to finance power generation within and across borders. Countercyclical policies have some side effects: inflationary pressure in Botswana, dollar shortage in Malawi, high profits realized by the commercial banks in Ghana which did not reduce their own lending rates, and increasing capital outflow in Namibia. Partly in response to the side effects specific to their own countries, Tunisia introduced capital gains tax on short-term stock investments while South Africa plans to relax control on capital outflows.

Appendix Table 1: Stock market movements – Week ending on 29 October, 2010

Stock Markets							
Region/Country	Index Name	Index Code	Market Capitalization (USD, million) (29-10-2010)	Weekly % change (29-10-2010)		Year-to-date % Change	
				Week under review	Previous week	Dec 31 - Oct 29	
Côte d'Ivoire	BRVM Composite Index	BRVM CI	5,503	▲ 3.62	▼ -1.05	▲ 22.9	
Egypt*	CASE 30 Index	CASE30	18,640	▼ -1.60	▼ -1.06	▲ 7.9	
Ghana	Ghana All Share	GSE	13,738	▲ 1.94	▲ 0.36	▲ 23.6	
Kenya	Nairobi SE Index- NSE 20	NSE 20	15,178	▼ -0.40	▲ 1.13	▲ 43.5	
Mauritius	Mauritius AllShares	SEMDEX	5,462	▲ 1.10	▼ -1.41	▲ 12.1	
Morocco	Casa All Share Index	MASI	15,130	▼ -1.05	▲ 1.75	▲ 16.8	
Nigeria	NGSE All Share Index	NGSE	37,705	▲ 0.25	▼ -0.39	▲ 20.2	
South Africa	All Share Index	JALSH	708,906	▲ 1.04	▲ 0.17	▲ 10.0	
Tunisia	Tunis se Tnse Index STK	TUNINDEX	2,998	▼ -4.94	▼ -0.01	▲ 19.4	
Uganda*	Uganda SE All Share index	USE	5,540.7	▲ 1.28	▲ 1.52	▲ 63.1	
Others							
USA	Dow Jones Industrial	DJ Index	3,509,740	▼ -0.13	▲ 0.63	▲ 6.6	
France	CAC 40 Index	CAC40	971,506	▼ -0.91	▲ 1.08	▼ -2.6	
Japan	Nikkei 225 Index	N225	2,290,611	▼ -2.38	▼ -0.77	▼ -12.7	

* Value at end of 28 October, 2010

Appendix Table 2: Exchange rate movements – Week ending on 29 October, 2010

Exchange Rates (currency per US\$)								
Region/Country	Currency Name	Currency Code	Weekly % change (29-10-2010)		Year-to-date % Change			
			Week under review	Previous week	Dec 31 -Oct 29			
Africa								
Algeria	Algerian Dinar	DZD	▼	-0.80	▲	0.90	▼	-1.5
Angola	New Kwanza	AON	▼	-0.28	▼	-0.28	▼	-3.9
Botswana	Pula	BWP	▼	-1.46	▼	-1.02	▲	1.1
Burundi	Burundi Franc	BIF	▲	0.33	▲	0.05	▲	1.3
Cape Verde	Escudo	CVE	▲	0.13	▼	-0.60	▼	-6.9
Comoros	Comoros Franc	KMF	▲	0.91	▼	-1.03	▼	-2.8
Congo. Dem. Rep. of	Congolese Franc	CDF	▼	-0.17	▼	-0.36	▼	-12.2
Djibouti	Djibouti Franc	DJF	▼	-0.23	▲	0.08	▼	-2.5
Egypt	Egyptian Pound	EGP	▼	-0.14	▼	-1.27	▼	-5.0
Ethiopia	Birr	ETB	▼	-0.08	▼	-0.07	▼	-22.7
Gambia. The	Gambian Dalasi	GMD	▲	0.65	▼	-0.74	▼	-7.0
Ghana	New Cedi	GHS	▼	-0.29	▲	0.08	▲	0.3
Guinea	Guinea Franc	GNF	▲	0.07	▼	-0.28	▼	-29.8
Kenya	Kenyan Shilling	KES	▲	0.01	▲	0.63	▼	-5.2
Liberia	Liberian Dollar	LRD	▼	-0.69	▲	0.69	▼	-3.4
Libya	Libyan Dinar	LYD	▼	-0.23	▲	0.69	▼	-0.5
Madagascar	Ariary	MGA	▼	-0.41	▲	0.36	▼	-2.1
Malawi	Kwacha	MWK	▼	-0.06	▼	-0.14	▼	-3.3
Mauritania	Ouguiya	MRO	▼	-0.83	▲	0.37	▼	-7.2
Mauritius	Mauritius Rupee	MUR	▲	0.73	▼	-0.66	▲	2.0
Morocco	Dirham	MAD	▼	-0.90	▼	-0.32	▼	-2.6
Mozambique	New Metical	MZN	▲	0.00	▼	-0.69	▼	-24.2
Nigeria	Naira	NGN	▲	1.30	▼	-0.69	▲	0.1
Rwanda	Rwandan Franc	RWF	▼	-0.21	▲	0.62	▼	-2.0
São Tomé & Príncipe	Dobra	STD	▼	-0.60	▼	-0.47	▼	-10.9
Seychelles	Seychelles Rupee	SCR	▼	-1.10	▲	0.92	▼	-8.7
Sierra Leone	Leone	SLL	▼	-1.06	▼	-0.13	▼	-6.0
Somalia	Somali Shilling	SOS	▼	-0.29	▲	0.02	▼	-7.6
South Africa	Rand	ZAR	▼	-1.37	▼	-1.98	▲	5.4
Sudan	Sudanese Pound	SDG	▼	-0.22	▲	0.40	▼	-1.8
Tanzania	Tanzanian Shilling	TZS	▼	-0.27	▲	1.54	▼	-10.5
Tunisia	Tunisian Dinar	TND	▼	-0.65	▼	-0.19	▼	-5.1
Uganda	Uganda Shilling	UGX	▼	-0.36	▼	-0.74	▼	-16.4
Zambia	Zambian Kwacha	ZMK	▼	-0.04	▼	-1.27	▲	0.1
CFA zone Countries	CFA Franc	XOF	▼	-1.29	▼	-0.26	▼	-3.4
Others								
Europe	Euro	EUR	▼	-0.68	▼	-0.74	▼	-3.2
Japan	Yen	JPY	▼	-0.07	▲	0.19	▲	13.6

Source: AfDB Statistics Department, October 2010